To,	From,
The Secretary,	M. Thimma Reddy,
A.P. Electricity Regulatory Commission,	Convenor, People's Monitoring Group on
Singareni Bhavan, Red Hills,	Electricity Regulation,
Lakdi ka pool,	First Floor, 1-9-291/6/1, Vidyanagar,
Hyderabad – 500 008	Hyderabad – 500 044

Date: 00 -03-2013

Respected Sir,

Sub:- Submission of objections and suggestions on FSA claims of the APDISCOMs for the third quarter of 2012-13 and request to be heard in person – Reg.

Ref:- Public Notice published in Newspapers regarding FSA proposals filed by APDISCOMs with the APERC on 05-02-2013.

1.1 The present FSA proposals of DISCOMs for the third quarter of 2012-13 filed with the Commission do not contain important information to decide on their claims. Even the information made available in the earlier proposals is not made available this time. In the case of the FSA claims for the years of 2010-11 and 2011-12 information on GCV of fuels used by different stations and corresponding variable cost was provided. This time this crucial information is missing. Here also it is to be mentioned that in the past the information in GCV contained combined GCV of local and imported coal. The GCV of local and imported coal was not provided separately. The Commission's Order dated 20th September 2012 on FSA claims for 2012 (paragraph 35) shows that the Commission was also provided with only combined GCV but not separate GCV for local and imported coal. It appears that both GENCO and NTPC are not willing to part information on actual GCV of imported coal. During the public process on tariff proposals for the year 2013-14 the DISCOMs provided some information on GCV of GENCO plants. This information only mentioned the GCV according to the fuel supply agreements but not the actual GCV achieved at these plants. There appears to be a deliberate attempt to suppress information on these crucial issues. Along with the GCV information on heat rate (units of power generated per unit of kcal of heat on burning of fuels) is also required to examine the justifiability of FSA claimed by DISCOMs. We request the Commission to direct GENCO and NTPC to provide GCV and heat rate figures separately for local and imported coal.

2.1 APDISCOMs proposed to recover Rs. 1068.27 crore through FSA of Rs. 0.9559 per unit related to power consumed during the third quarter of 2012-13.

2.2 APDISCOMs' FSA proposals show that while APERC approved procurement of 22,938 MU during the 3rd quarter of 2012-13 DISCOMs were able to procure only 19,259 MU, a decline of 3,679 MU (16.04%). DISCOMs in their submissions attributed the above deficit to non-availability of power from hydel stations. But an examination of their submissions shows that the culprit is some one else. The deficit in power availability from hydel stations is only 592 MU. While APERC estimated availability of 1,485 MU of hydro power actual generation was 893 MU during this quarter. Deficit from gas based power plants owned by IPPs accounted for nearly 1,000 MU of deficit. During the month of December 2012 alone deficit from these plants stood at 305 MU. During this quarter while the Commission approved procurement of 3,609.75 MU from open market DISCOMs were able to procure only 2,535.92 MU, contributing a deficit of 1,073.83 MU. Decline in generation at gas based power plants in the state and failure of DISCOM contract estimated power from open market led to 16% deficit in power procurement during this quarter. DISCOMs in their filings on the present FSA proposals stated they are "constrained to procure power from short term sources through transparent tender procedures". While on the one hand they failed to procure the projected quantum of electricity from open market in spite of advanced knowledge of the deficit and on the other there are also doubts about the "transparency" of the procedures followed in procuring power from open market. 784.46 MU of accounting for 31% of the market procured power is sourced from single entity that is JSW at highest price of Rs. 5.65 per unit, even crossing the price limit set by the Commission for open market purchases. It may not be out of place to mention that this power company is closely associated with the ruling party at the centre, which at present is the de facto ruler of the state. The other important sources of power for open market purchases are GMR and Lanco. They together contributed 184.76 MU and the price went up to Rs. 5.60 per unit. And they used the gas allocated to the state to produce power and sell it at open market prices. In the context of deficit in power procurement it has also to be mentioned that coal based power plants in the state also contributed its might to the deficit due to secure adequate coal allotment.

Table: 1 Per Unit Variable Cost Burden

Plant	Variable cost according to ARR 2012-13 (Rs/U)	Variable cost according to FSA Proposals for Q2 of 2012-13 (Rs/U)		
		October 12	November 12	December 12
Coal based plants				
NTPC (SR)	1.74	1.73	1.62	1.69
Simhadri I	2.10	1.75	1.77	1.94
KTPS – A, B, C	1.35	2.05	1.97	1.97
VTPS – I, II, III	1.94	2.55	2.62	2.49
VTPS – IV	2.65	3.44	3.46	2.71
RTPP	2.18	3.54	3.45	3.23
KTPS VI	1.76	2.93	3.04	2.61
Kakatiya I	1.75	2.52	2.58	2.57

Gas based plants				
APGPCL – St. 1	1.89	2.33	2.33	2.33
Reliance	1.72	2.00	1.99	2.03
Konaseema	1.80	2.02	2.10	2.11
Vemagiri	1.80	2.05	2.08	2.10
GVK	2.07	2.14	2.12	2.15
GVK Extn	1.80	2.04	2.08	2.10
Gautami	1.80	2.04	2.08	2.09
Spectrum	1.77	2.30	2.12	2.15
Lanco	2.04	2.22	2.15	2.20

3.1 From the above Table it is clear that while in the case of coal based plants of central generating stations (NTPC (SR) and Simhadri) variable costs reported under FSA proposals were lower than those mentioned the Tariff Order for the year 2012-13 in the case of GENCO plants variable costs reported under FSA proposals were higher than those mentioned in the Tariff Order. In the case of GENCO plants variable costs increased by Rs. 1.30 per unit. There is no explanation for this hike in variable costs of GENCO coal based plants. Both the CGS as well as GENCO plants obtain coal from the same sources. Even then when variable costs of CGS declined that of GENCO plants increased. The use of imported coal may be one of the reasons! Even when local coal production is being neglected there is rush for imported coal. CGS also use imported coal. In the case of GENCO pit head plants like KTPS and Kakatiya Power plant also variable costs increased considerably. Their variable costs are higher than CGS plants. There appears to be some this seriously wrong with the GENCO plants. When the increase in coal prices did not affect CGS much how is it that variable costs of GENCO plants increase by nearly 50%? It is the responsibility of APERC to see that this puzzle is solved in a transparent manner, to the satisfaction of all stakeholders. We request APERC to direct DISCOMs and GENCO to make all facts public.

3.2 Variable cost of gas based power plants also registered hike leading to the proposed FSA burden. The increase in variable cost of gas based power plants from Rs. 0.09 to Rs. 0.76 per unit. In this case of the DISCOMs' proposals do no throw any light on the reasons for this hike. It may be because of use of costly imported RLNG. Is there need to import this costly RLNG when gas produced in the vicinity is more than the state's needs?

Coal Related Issues:

4.1 One of the important reasons for increase in variable costs is the rise in coal prices both Coal India Ltd (CIL) and its subsidiaries and SCCL. Coal prices are increased even when the coal mining companies were reaping enormous profits. The mining companies in the country raised the coal prices by 25 to 40% even when they were reaping enormous profits. During the second quarter of the financial year 2012-13 Coal India Ltd., registered a net profit to Rs 3,078 crore. During the same period last financial year it earned a profit of Rs 2,593 crore. During this period while production increased by 11 percent profit increased by 18.7 per cent. CIL is said to be sitting on accumulated profits of over Rs. 62,000 crore. Even then it is increasing coal prices. Similarly SCCL is also increased coal prices from Rs. 2050 per ton to Rs. 2,700 per ton. Already SCCL is earning profit of more than Rs. 300 crore every year. With this price increase its profits will increase further. Consumers in the state have to bear this burden from increased prices of coal.

4.2 DISCOMs in response to earlier submissions replied, “The increase in variable cost is due to increase in landed cost of domestic coal on account of increase in VAT, central excise duty, royalty, fuel surcharge hike and railway freight”. But they did not explain to what extent these factors caused increase in variable cost. According to their own submission state and central governments themselves are responsible for this FSA burden being imposed on electricity consumers in the state. We are appealing to both the governments to rethink on their taxation and revenue mobilization policies and see that burden on the consumers is reduced.

4.3 Another important reason for the proposed FSA burden is the use of costly imported coal. The information provided by DISCOMs earlier on NTPC plants show that the reported higher GCV of imported coal compared to domestic coal is not visible while it is several times costlier than domestic coal. Imported coal is said to have 80% more GCV than domestic coal. 1.6 MT of imported coal is said to be equivalent to 2.88 MT of domestic coal. When compared to the cost of imported coal this difference in GCV do not hold any comparative advantage of depending on imported coal. This brings in to question the preference shown by some power developers to go in for imported coal. This shows that they are trying to benefit from the price differential at the cost of consumers in the country.

Table: 2 NTPC Plants’ Details

Month In 2012	RSTPS St. I & II		RSTPS St. III		Simhadri – I		Talcher St. II	
	% of Imported Coal	Weighted Average GCV (Kcal/Kg)	% of Imported Coal	Weighted Average GCV (Kcal/Kg)	% of Imported Coal	Weighted Average GCV (Kcal/Kg)	% of Imported Coal	Weighted Average GCV (Kcal/Kg)
April	0	3749	0	3673	12.92	3230	16.16	3151
May	01.55	3806	0	3592	20.21	3395	19.89	3095
June	02.65	3990	0	3662	13.92	3107	15.95	2810
July	03.34	4051	0	3535	13.53	3211	14.92	2812
August	00.45	4093	0	3659	00.35	3030	07.48	2643
Sept.	0	4086	0	3741	0	3297	08.06	2781

4.4 The above table shows that use of imported coal did not add significantly or make much difference to average GCV. The GCV of RSTPS which used no or almost insignificant amounts of imported coal reported higher GCV than Simhadri and Talcher plants which used significant portion of coal sourced from abroad. Within these two plants also imported coal did not seem to have made any difference. In the case of Simhadri – I plant in the month of September 2012 without use of imported coal GCV stood at 3297 Kcal/Kg. During June and July months when nearly 14 percent of coal was sourced from abroad GCV was below September level. In the case of Talcher Stage II also such experience could be found. During the month of September with 8% of coal from imported stock GCV stood at 2781 Kcal/Kg. During June with 15.95% imported coal GCV was 2810 Kcal/Kg only. Similarly during July with 14.92% of imported coal GCV was 2812 Kcal/Kg only. Imported coal is said to have 80% more GCV compared to domestic coal. There is need to examine the actual GCV of imported coal is in relation to the price paid to it.

Table: 3 Cost of Coal

NTPC Plant	Cost of Domestic Coal (Rs./MT)	Cost of Imported Coal (Rs./MT)	
RSTPS St. I & II	2234.83	4880.73	2.18
Simhadri – I	1982.47	5480.45	2.76
Talcher St. II	929.49	6118.82	6.58

4.5 Imported coal is two to six times costlier than domestic coal while it is only 80% more efficient. While abundant coal reserves are in the country there is no logic in going in for imported coal. Indian companies are showing more interest in developing imported coal fields than coal blocks allotted to them in the country. There is wide variance in the stated efficiency of imported coal and its cost in relation to domestic coal. It is more profitable to the power developers as well as consumers in the state to depend on domestic coal. But somehow all things “foreign” appears more attractive, including coal!

4.6 Coal India Limited produced 435 million tonnes of coal in 2011-12 from its reserves of 60 billion tones. At the same time public and private companies which are allotted coal blocks with aggregate reserves of 48 billion tonnes produced only 36 million tonnes of coal. The delay on the part of these companies may be deliberate as they planned to profit from import of costly coal.

4.7 DISCOMs in their earlier replies stated that under CEA directions 30% of the coal shall be imported. NTPC figures show that in some projects imported coal was not at all used. It implies that importing a 30% of the coal requirement is not binding. Power plants on their own can source coal supplies. It is in this context that captive coal mines allotted to the power plants gains significance.

4.8 DISCOMs backed their proposal to consider escalation of variable cost as a part of tariff proposals for the year 2013-14 by 10% in order to take into account the quantum of imported coal that is expected to be used. The additional information provided by DISCOMs show that the higher price for imported coal is in commensurate with its higher GCV. For example, while cost of imported coal is Rs. 5,390 per MT and its GCV is 6,199 Kcal.kg, in the case of domestic coal price is Rs. 2, 602 per MT and its GCV is 3,116 Kcal/kg. These price relations show that imported coal shall not lead to increase in power generation cost.

4.9 Earlier the DISCOMs though provided information related to GCV and other details of NTPC plants did not provide information related to GENCO. In response to submissions on tariff proposals for the year 2013-14 DISCOMs provided some information related coal consumption of GENCO. But the information seems to be derived from fuel supply agreements but not from actual operation of the power plants.

4.10 DISCOMs in response to our submissions on tariff proposals for the year 2013-14 stated "Since boilers are designed for indigenous coal, the specific consumption of coal is not coming down despite using higher calorific value of imported coal with higher prices". In other words the use of so-called high quality imported coal is not leading to increased power generation. This shows that importing costly coal is no answer to fuel shortage in the country. All efforts shall be directed towards increasing coal production within the country.

4.11 It is being alleged that delay in issuing environmental clearance for coal mining projects is coming in the way of mining enough quantity of coal. Environmental clearance is not an issue in delay in coal production. There appears to be deliberate delaying in coal production. Delay in environmental clearance is being shown as an important reason for lower coal availability in the country. But contrary to this the central Environment Ministry has already given enough clearances for coal mining. But there appears to be deliberate delay in commencing coal mining in the country to force imported costly coal on consumers in the country. According to a report Down to Earth (dated 15th November 2012), "India is estimated to produce 575 million tonnes (MT) of coal in 2012-13. In the past five years, **clearance has been given to almost double the existing capacity.** This despite companies, including the Coal India Ltd, producing much less than their capacity. According to the Comptroller and Auditor General Report, of the **86 coal blocks slated to begin production** by 2010-11, only **28 have commenced.** Besides, these blocks produced only 34.64 MT against the target of 73 MT—**a shortfall by 52%".**

4.12 Use imported coal was advocated on the ground that enough coal is not being produced within the country. But proper attempts are not made to increase coal mining within the country. APGENCO was allocated captive coal mines more than seven years back to mine coal for use in its power plants. But there was no initiative on the part of GENCO to use this for it's as well as state's advantage. This delay on its part led to dependence on costly imported coal. If the captive blocks allocated to it were operationalised as stipulated by the Ministry of Coal of GoI there would have been no need to depend on costly imported coal.

4.13 Tadicherla coal block was allocated by the Ministry of Coal, Government of India to APGENCO on 6th December, 2005 as a captive block for its power plants. Production of coal at this mine was expected to commence in December 2008. Similarly, Anisettypally, Punukula – Chilka and Pengadapa coal blocks were also allocated to APGENCO on 20th February, 2007 for captive consumption. But there was no movement on the part of APGENCO to start mining. According to the norms coal mining is expected to begin in three to four years from the date of allocation of coal blocks. As there was no progress either on paper or on ground the coal blocks of Anisettypally, Punukula – Chilka and Pengadapa were de-allocated by the Ministry of Coal. In the case of Tadicherla the Ministry of Coal issued a show cause Notice to APGENCO, dated 3rd May, 2012. According to this Notice, "In the review meeting held on 11/12.01.2012 it was noticed that no serious efforts have been made by the Company to develop the coal block, even after repeated assurances tendered by the Company during the period. It is also noted that all the important/critical milestones such as grant of previous approval, Forest clearance, EMP, Mining Lease and Land acquisition are pending for Tadicherla – I coal block. The Company has repeatedly failed to keep its promise made to the Ministry and is thus non-serious about timely development of the block". They did not even procure relevant maps from SCCL.

4.14 Even when there is apparent and serious coal/fuel shortage no urgency was shown to utilize the resources made available to the GENCO. Rather it was stated that 30% of the coal is being imported at the directions of CEA. Because of inefficiency of GENCO consumers in the state are forced to bear the present FSA burden. Why shall consumers in the state pay for inefficiency of GENCO?

4.15 We request the Commission to direct APGENCO to steps expeditiously to mine coal from Tadicherla-I block and also reclaim the three coal blocks de-allocated. This will go along way to reduce dependence of costly imported coal and in return reduce burden on electricity consumers in the state.

4.16 GENCO is also using coal from its captive mines apart from supplies from SCCL and CIL. We would like to know how they price the coal from their captive coal blocks.

Gas related issues:

5.1 One of the reasons for increase in variable cost of gas based power plants is the use of costly imported RLNG in these plants. These plants have to use RLNG as they were not allocated very meager amount of gas form KG Basin gas fields.

5.2 Though AP has access to more than 2700 MW gas based power generation capacity less than 700 MW capacity is only being operated due to shortage in natural gas availability. It is being alleged that this shortage is artificially created. There are two parts in the issue: low gas production and low gas allocation to power plants in AP. Gas production from KG basin declined from 60 MMSCMD to 22 MMSCMD. The RIL has attributed this decline to unexpected geological developments. Both the Director General of Hydrocarbons and central Ministry of Petroleum and Natural gas did not buy the argument of RIL related to decline in gas production from KG basin fields. Recently the Director General of Hydrocarbons demanded an explanation from RIL and its partners on various issues including not drilling the approved development wells and failing to adhere to the management committee approved plans. RIL attributed the decline in gas production to water and sand ingress in to the gas wells. The Director General of Hydrocarbons in its communication also pointed out that the work plan and budget submitted by RIL for the year 2012-13 did not contain any immediate firm plan for tackling issues of water and sand ingress. This clearly shows that increasing gas production is not the immediate concern of RIL. It is a clear case of hoarding on the part of RIL to benefit from hike in gas prices in future, and it is putting pressure on the central government to hike natural gas prices on the lines of RLNG. The power generation lost due to cut down on gas production from KG basin fields is nearly equal to peak power demand deficit (for e.g., on 11-11-2012 peak demand was 11,479 MW, peak demand met was 9,579 MW and peak deficit was 1,900 MW). Had there been no decline in gas production there would have been no need for use of RLNG and purchases from open market at steep prices. Shortly after the Rangarajan Committee Report on gas prices, which recommended price of $8 per MBTU of gas, was submitted Mr. Mukhesh Ambani, Chairman RIL and Mr. Bob Dudley, Chief Executive of BP Group met the Union Minister Petroleum and Natural Gas Mr. Veerappa Moily on 19th February, 2013 and expressed their readiness to invest $5 billion on KG Basin gas production. With this investment they plan to develop around 4 TCF of discovered natural gas resources from the D6 block of KG Basin fields. Here it is also to be mentioned that one of RIL partners Nicky as a part of putting pressure on the central government to hike natural gas prices downgraded the gas potential of this field from 10 TCF to 3.5 TCF. As already nearly 1.5 TCF is already used only 1.5 TCF should have been left for exploration and development. But now RIL and its partners talk about developing 4 TCF. This itself speaks volumes about the artificial scarcity of gas created by RIL and its partners. In order to corner windfall RIL did not hesitate to subject people of Andhra Pradesh to serious power cuts as well as unprecedented tariff hike. Morgan Stanley in its latest report has upgraded investment status of RIL and raised its target price to Rs 961 from Rs 798 earlier. The stock has the potential to gain nearly 19 per cent from 1st March, 2013's closing price of Rs 809.50 on the Bombay stock Exchange. Morgan Stanley viewed RIL's planned $5 billion capital expenditure for domestic exploration and production and the Indian government's inclination to linking gas prices in the country to international prices as some of the key factors in the upturn of RIL's share price. What more evidence do we need to link decline in gas production in KG basin to RIL's greed? When all this is going on in broad day light the political leadership in the state did not move even a finger to protect the interests of people in the state. Even the state government of Maharashtra demanded the central government to nationalise KG basin gas fields. It is high time political as well as official circles in the state take up this artificial decline in gas production in RIL's KG basin gas fields seriously with the central government. There would have been no need for the present FSA proposals had the gas production at KG basin were maintained at earlier levels.

5.3 Even out of the total gas produced from RIL's KG basin fields power plants in AP were allocated a small portion. Out about 25 MMSCMD of gas produced from these fields gas based power plants in AP were allocated only about 2.8 MMSCMD of natural gas. That is only about 10% of the gas produced from these gas fields was allocated to power plants in AP. In 2003 the APERC approved PPAs with new gas based power plants with a total capacity of 1500 MW on the assurance that adequate gas would be available to these plants from KG basin fields. The Commission had given approval to the PPAs of gas based power plants on the basis of assurance given by GAIL that there would be no difficulty in ensuring uninterrupted supply of gas from the KG basin. As an example here we take the Order issued by the Commission on 12-04-2003 in the case of PPA with Gautami Power Ltd (O.P. No. 5/2002). According to Para 102 (ii) of the order "The conditions on fuel are as detailed in Para 96 (b) on Fuel tie-up". According to Para 96 (b) (ii) "The gas supply agreement between GPPL and GAIL was due to expire by December 31, 2010 while PPA term is for a period of fifteen years from the project CoD. This implied that for the balance period of the PPA, GPPL had no fuel linkage from GIL. But GPPL has subsequently sought for extension of this date till December 31, 2018 based on assurance given by GAIL that they would enter into agreement with developers for supply of gas for the entire term of the PPA. APTRANSCO insists that the extension should take place before the singing of the PPA". Before this at Para 96 **(a)** (a) the Commission noted the clarification from GAIL, "GAIL does not envisage any difficulty in ensuring uninterrupted supply of gas to consumers in the KG Basin in the long-term". From this it is clear that the gas based power plants in AP are based on the availability of gas from KG Basin and the Commission had given approval to them on the basis of assurance given by GAIL and ONGC on availability of gas from KG Bain fields. This clearly implies that the gas based power plants in AP have come on the basis of availability of gas from KG basin. As such these power plants in AP shall have first right on gas available from these fields. But contrary to this, these power plants are getting less than 10% of the gas available from KG basin fields. But once gas production started the assurance given to these plants was forgotten. As these plants were approved on the assurance of availability of gas these plants should have first right on the gas produced from RIL's KG basin gas fields. If adequate quantity of gas was allocated to the gas based power plants in AP there would have been no need for RLNG purchases, no open market procurement at high rates and new FSA proposals. It is high time the assurance given to these plants is delivered by the central government.

5.4 At the same time power plants outside AP like Ratnagiri Power Plant (erstwhile Dabhol/Enron plant) which are planned to be based on imported LNG are given preferential allocation of natural gas from KG basin. Though KG basin gas supply to Ratnagiri plant was stopped for a few days it was restored on 28th January, 2013 the day on which the whole state of AP was preoccupied with the Telangana issue. 1.9 MSCMD of KG basin gas is being supplied to this plant. The Commission as well as the Government of AP shall see to it that the gas from KG basin is transported outside AP only after meeting full requirement of gas based power plants in AP. It is a travesty of justice that while plants based on natural gas are being forced to import costly LNG the plants which are originally planned to run on imported LNG is being allocated natural gas from KG basin. The sooner this injustice ends it is better for the state as well as the country.

5.5 Overall, steps shall be taken to see that adequate gas is allocated to AP gas based power plants to save electricity consumers in the state from frequent FSA burden. It is high time the rights of the AP plants were restored. Once this is done not only power generation cost will come down but also availability of power in the state will increase. The present FSA to a large extent is a result of shortage of power supply in the state.

Gas Allocation to Merchant Plants

5.6.1 Even when gas based power plants with approved PPAs with DISCOMs are running short of natural gas two merchant plants belonging to Lanco and GMR groups were provided gas linkage with the recommendation of the state government, against the clear direction of the central government's directive that this gas shall not be provided to the plants that sell power at market rate. Because of this high cost of power has to be procured form these two plants. Up to Rs. 5.60 per unit was paid for power procured form these two merchant plants, even violating APERC's limit on price to be paid to open market purchases. If the same gas was made available to the plants with approved PPAs Rs. 1.85 per unit would have been enough to access the same power. During the third quarter of 2012-13 184.76 MU of power was purchased from these two plants at aggregate cost of Rs. 96.94 crore. If the same gas was made available to plants with long term PPAs it would have cost only Rs. 34.18 crore. This implies that Rs. 62.77 crore additional burden was imposed on electricity consumers in the state because of diversion of gas to merchant power plants. We request the Commission not to allow this additional burden.

5.6.2 During the first quarter of 2012-13 Rs. 155.72 crore additional burden was imposed on the consumers in the state by diverting gas from plants with PPAs to merchant plants of Lanco and GMR. During the second quarter of 2012-13 this amount stood at Rs. 97.33 crore. During the years 2010-11 and 2011-12 Rs. 865 crore burden was imposed on the consumers in the state due to allocation of gas to these two merchant plants. Since 2010-11 the electricity consumers in the state have to pay Rs. 1181 crore additionally. The same shall be recovered from the merchant power plants. If this amount is recovered there will be no need to impose the FSA proposed by the DISCOMs for the 2nd quarter of 2013. These payments made to merchant plants of Lanco and GMR can be recovered through retaining payments to be made to power produced from the older units of these plants.

5.6.3 Natural gas from RIL's KG Basin was allotted to merchant plants of Lanco and GMR on the recommendations of the GoAP. While allocating gas to these plants the EGOM laid down the condition that they should supply power produced from this gas to DISCOMs within the state at the rate determined by the Commission, through a long-term PPA. But for a considerable time they supplied power outside the state in violation of conditions laid down by the EGOM. After a hue and cry in the state they started supplying power in the state but at the open market. This entailed huge burden on the consumers in the state.

5.6.4 Even when the EGOM terms clearly state that these merchant plants shall enter in to long term PPAs to be eligible for gas allocation all these while they avoided entering in to long term PPAs and selling power at open market prices. There is reported to be a short term PPA with these merchant plants. As for as we know Commission has not approved these. There is no proceeding approving these short term PPAs. There were only mentions that DISCOMs approached the Commission to determine the price for these plants.

5.6.5 EGOM was reported to have decided on 24-02-2012 "that as M/s Lanco Kondapalli (Expansion) and GMR Tanir Bawi have signed the short term PPA till 30-05-2012 … after which the supply would be suspended if they fail to comply with the conditions specified by the EGOM for supply of domestic gas". This implies that gas supply to these plants should have been suspended from 01-06-2012. But these two plants continue to get gas and sell power at open market rates, of course in the garb of Case 1 Bidding.

5.6.6 In the case of Lanco's coal based thermal power plant at Amarkantak in Jharkhand coal linkage was cancelled as it does not have long term PPA with Chhattisgarh utilities. But in AP even after repeated reminders over the years nothing is being done. It is nothing but an open collusion among the Utilities, state and central governments. Commission also seems to have contributed to it by increasing the ceiling price to Rs. 5.50 per unit.

5.6.7 Even after all this, controversy there are doubts whether Lanco and GMR are selling all the power produced by their merchant power plants in AP only. If we take in to account the quantum of power supplied by these two merchant plants outside the state the actual burden from allocation gas to these merchant plants would be more than Rs. 1181 crore!

5.6.8 As far as Lanco II and GMR Barge mounted the ceiling price cannot be the standard, it is not the regulated price meant for these two plants specifically, is meant for short term power purchases from open market. These two plants are not green field projects, they got various facilities for their earlier projects and that is being used now. Gas was also allocated with the condition that power generated shall be made available to AP only at the price determined by the Commission. The Commission did not determine price for these two plants.

5.6.9 We have brought to the notice of the Commission as well as the Utilities in the state a provision in the National Electricity Tariff Policy which allows procurement of power from extension plants of existing plants with the approval of the Commission. The Commission had directed the DISCOMs submit their response on this. DISCOMs wrote to the state government. And we did not hear after wards either from the DISCOMs or the GoAP. But now everybody is after Lanco and GMR to sign long-term PPA, with questionable motives.

Gas Price:

5.7.1 Increase in gas price has adversely impacted the consumers. The price of gas from KG basin fields of RIL was increased from $ 2.52 to $ 4.2 per MBTU in a questionable manner. The new price is said to have been arrived at through so-called price discovery mechanism. This mechanism was carried out by RIL but not by the Government of India. The Prime Minister's Economic Advisory Council also found fault with the mechanism adopted in this price discovery. But still the GoI went ahead and gave clearance to this hike. The price differential will entail additional burden of more than Rs. 15,000 crore on the consumers in the state in the coming years.

5.7.2 RIL sought gas price hike in the name of increased capital cost. It increased capital expenditure from $2.5 billion to $8.8 billion. CAG which audited these expenditures questioned the reasonableness of these expenditures. It found that ten contracts were awarded in questionable manner and wanted an in depth review of these contracts. Eight contracts were awarded to Aker Group on a single bid basis, without any competition. A contact of $1.1 billion was given to Aker Group against estimated original cost of $ 300 million. Following these findings CBI launched an inquiry in to Mr. V.K. Sibal who was the Director General of Hydrocarbons (DGH) when these expenditures were approved. The new DGH also found that while 22 wells need to be drilled by March 2011 to be able to produce 61.8 MCMD of gas only 18 wells were drilled. The GoI also came to a conclusion that $1.85 billion out of $5.694 billion already claimed to have been invested should be disallowed. As gas price was hiked in the name of increased capital cost and as it was found that the claimed capital expenditure by RIL was not real but inflated gas prices shall be brought down. DISCOMs as well as GoAP shall see to it that old gas prices prevail.

5.7.3 Even more astonishingly the government of India increased the price of gas from ONGC from $ 1.79 to $ 4.2 per MBTU. This hike was effected in the name of minimizing the losses of public sector gas companies. Irony is that these companies are some of the highly profit making companies in the country even before this hike. One could only imagine the windfall profits these companies are going to make. But electricity consumers have to bear this burden. Instead of facilitating availability of cheap and affordable electricity to the consumers these steps of the government are making electricity very costly. Price of gas from ONGC fields was increased to be commensurate with the gas price form RIL fields. As it was found that price hike of gas from RIL fields was based on inflated capital costs price of gas from ONGC fields shall also be brought down.

5.7.4 Recently a Committee a headed by Prof. Rangaragan, Chairman of the Prime Minister's Economic Advisory Committee recommended hiking gas price to $8 per MBTU. This Committee followed unheard of method to increase domestic natural gas prices primarily to benefit RIL. Even before RIL other domestic gas companies like ONGC and Cairn will reap enormous profits. Nowhere in the world is the domestically produced natural gas priced like this. The conditions of gas production change from country to country. In the past the RIL before the Bombay High court mentioned the cost of gas production as $0.60. In response to an international bid floated by NTPC RIL won a bid to supply gas at the rate of $2.3 per MBTU.

The proposed hike in gas price will add to the electricity consumers' burden enormously. As the proposed hike not based any proper methodology it shall be opposed. We request the DISCOMs as well as the GoAP to take up this issue with the GoI and see that the above arbitrary price is not imposed on the consumers in the state.

6.1 The Commission has put the limit of Rs. 5.50 per unit as the price for open market purchases. But the present FSA proposals of DISCOMs show that nearly 40% of the open market purchases were paid more than this limit. The DISCOMs are covering the above high price behind the so called market discovered price. We request the Commission not to approve higher prices. As the whole open market, short term power purchases are mired in controversies we request the Commission to conduct a detailed enquiry in to these purchases.

7.1 DISCOMs in the state are declaring that they are earning huge profits. These profits are higher than the margins allowed by the Commission. If they are really earning these profits where is the need for the present FSA proposal? What is true – deficits or profits?

8.1 Commission itself is contributing to hike in power purchase costs – increase in ceiling of open market price to Rs. 5.50 per unit and recent increase in wind energy tariff are just two examples. And these decisions were also characterized by lack of transparency, and meant to benefit a section at the cost of the state. In this context we would like to draw attention of the Commission to Section 86 (3) of the electricity Act, 2003 which stipulates that "The State Commission shall ensure transparency while exercising its powers and discharging its functions."

9.1 We request the Commission to provide us an opportunity to be heard in person during the public hearing on the above FSA claims of DISCOMs.

We request the Commission

- Not to approve present FSA proposals of the DISCOMs.
- Direct GENCO to start coal mining in the captive blocks allocated to it expeditiously.
- To review coal consumption by GENCO.
- Advise the state government to take up issues related to decline in gas production as well as gas prices with the GoI.
- Advise the state government to recommend transfer gas allocation from merchant plants to the plants which already have approved PPAs.
- Remind both the state and central governments on assurance given to the plants with PPAs on availability of gas from RIL's KG basin gas fields and see that these plants will get full requirement of gas.
- To take measures to recover Rs. 1181 crore additional burden imposed on the consumers from the merchant plants of Lanco and GMR.

- To rescind its Orders on increasing open market prices and wind energy prices and restore earlier rates.
- Give us an opportunity to be heard.

Thanking you,

Yours sincerely,

M. Thimma Reddy

Copy to:

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2. The Chief General Manager (Comml & RAC)
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4. The Chief General Manager (Operation)
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